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SUBJECT: WESTERN UKRAINE VIEWS ON ECONOMY, EUROPE, AND
YATSENYUK

REF: A. KYIV 605

[1](#)B. KYIV 590

Classified By: AMBASSADOR WILLIAM B. TAYLOR, REASONS 1.4 (B) AND (D)

[1](#)1. (C) Summary. Remittances from abroad are falling and banks are still shaky, but the economy in western Ukraine has stabilized in recent weeks, the Ambassador heard in Ivano-Frankivsk and Chernivtsi on May 13-15. On his final trip outside Kyiv before departing post, the Ambassador met with governors and mayors, toured a gas transport and storage facility, and took the political pulse of what is arguably Ukraine's most Europe-oriented population. Local leaders told us that flood damage required greater central government funding, and that Romania was posing potential trans-boundary problems. The Ambassador heard that hometown favorite Arseniy Yatsenyuk will likely receive significant support in the upcoming Presidential vote, while the recent success of the nationalist Svoboda party in Ternopil oblast council elections "by no means shows the real picture" in the west. End summary.

Regional Economy

[1](#)2. (SBU) On the back of remittances from young adults, who have left behind what one observer called an "unruly, parentless generation of children," western Ukraine's economic growth rates are top in the country, according to Chernivtsi Governor Volodymyr Kulish. Both Kulish and his fellow Governor Mykola Palichuk of Ivano-Frankivsk (I-F) told the Ambassador that Western Union and bank transfers are fueling the construction industry and provide revenue for local budgets. However, Governor Kulish said that remittances are down 40 percent this year, as many from the Bukovina region, which straddles the Ukrainian-Romanian border, have returned from abroad due to decreased demand for labor in Western and Central European countries. Kulish said there was a net inflow of migrants into his region for the first time in years.

[1](#)3. (SBU) U.S. observers we spoke with confirmed that both towns and villages in western Ukraine continue to see new multi-story houses built amidst dachas and garden plots, albeit more slowly than in recent years. Such homes are both a store of wealth and a mark of prestige for workers sending money from abroad, even if they have no access to electricity or running water. Governor Kulish stated that there had been 19 percent growth in the construction sector in 2008, with no fall recorded thus far in 2009. Very little rural housing

development had been driven by bank loans, he said, as property owners and builders operate on a "pay-as-you-go" basis.

14. (SBU) I-F's Governor Palichuk commented that significant problems remain in the banking sector, where loans are not being issued and trust has not been fully restored after panicky depositors rushed to withdraw savings in January and February. He expressed concern that consumption would continue to fall, with urban dwellers unable to finance new cars, housing, or purchases of durable goods. Palichuk told the Ambassador that he had intervened personally as a "guarantor" between banks and enterprises to secure loan prolongations, maintain low interest rates, and extend grace periods, ultimately allowing businesses to stop short of firing employees. But he worried that with home safes sold out in stores and depositors only interested in very short-term deposits, the local banking sector's problems were far from resolved.

15. (SBU) I-F's Palichuk stated that his oblast had overcome a sharp decline in industrial production, in part due to Presidential intervention. Palichuk credited Yushchenko with brokering an arrangement with an importer in Azerbaijan to buy cement from the largest plant in Ivano-Frankivsk, which had stood idle in the first weeks of 2009. Also heading a relatively non-industrialized oblast, Governor Kulish said that over 70 percent of families in the Chernivtsi region rely on land plots bigger than a hectare (2.5 acres) for sustenance and small-scale trade. Kulish hoped to assist farmers by attracting investment in food processing for

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export to Europe.

16. (SBU) Palichuk said that the I-F oblast had no public arrears owed to teachers or hospital workers, due to "manual management" of budget expenditures. He described a fiscal scenario where local governments were "on the edge" of not meeting non-discretionary payments and he confirmed that the oblast was spending no money this year on capital projects. Kulish stated that Chernivtsi had over 2 million UAH (\$260,000) in public sector wage arrears. Other observers we spoke with indicated that employees in Chernivtsi oblast had also seen a rise in private sector wage arrears and that there had been talk about whether future payments would be made in alcohol or in-kind services.

Gas Transit and Storage

17. (SBU) The Ambassador visited the Bogorodchany gas transportation hub, a critical way station for gas shipments to Europe located 20 kilometers outside of Ivano-Frankivsk. The hub consists of an underground gas storage facility (UGS), five gas compressor stations, a gas distribution station, and a currently unused gas conditioning complex that had been built during the Soviet era to improve the quality of exported gas. Deputy Director of Ukrtransgaz's local subsidiary Prykarpattiatransgaz (PTG), Yevtakhiv Kovaliv, said the system handles 80-90 percent of all Russian gas transit to Europe. According to Kovaliv, there had not been a single transit disruption via spurs into Hungary, Slovakia, Romania, and Moldova that could be attributed to Ukraine.

18. (SBU) Bogorodchany compressor stations can ship up to 240 million cubic meters of gas per day, but they are currently running at 40 percent capacity, due to decreased downstream demand in Europe. The hub's UGS is actively pumping excess gas into natural basins over 1000 meters deep that can be extracted during the winter peak consumption period.

19. (SBU) PTG experts told the Ambassador that they had been surprised by Gazprom's decision to shut off supplies during the January gas crisis. The abrupt fall in pressure forced technicians to design and implement an emergency plan to

reverse gas flows, ultimately supplying all industrial and household demand in Ukraine. Prior to the January crisis, the last time gas flowed eastward was in the 1980s, before local fields ran dry and when Russian gas fields in Siberia came fully online.

Flood Relief

¶10. (SBU) I-F Mayor Viktor Anushkevychus told us that the city had provided an adequate response to the summer 2008 flooding and had "liquidated" the problem. His staff was now attending to future flood prevention, but the city was not able to finance the cost of needed dam reinforcements. Both the city (\$460,000) and the oblast (\$15.8 million) still owed construction companies considerable sums, but promised assistance from the central government had not been forthcoming. I-F Governor Palichuk corroborated the mayor's story, adding that the GOU did not budget flood relief and reconstruction funds for 2009.

Concerns of Romanian Nationalism

¶11. (C) Chernivtsi Governor Kulish told the Ambassador that he had noticed a recent regression in relations with Romania (Ref A). Whereas he had once met frequently with Romanian senators and governors representing neighboring districts, his invitations for talks had gone unanswered over the past 4-5 months. Kulish said that Romania had officially fostered a simplified citizenship process for Bukovinans, and that roughly 40,000 passports had been issued, demanded by Ukrainian citizens mostly to facilitate cross-border commerce. Kulish said he did not rule out the possibility that Romania could use its foothold to support what he called a trans-boundary autonomy movement for a greater Romania, especially in light of recent events in Moldova.

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Political Winds of Change?

¶12. (SBU) Kulish explained that Chernivtsi's political stability had allowed for unity across party lines, which he said reflected the sentiments of the local population. Citizens in western Ukraine share aspirations for EU and NATO membership, said I-F Mayor Anushkevychus, noting that "right-center" parties with "coinciding views on major questions" had a strong majority. I-F's Governor Palichuk said that the President, Prime Minister Tymoshenko, and former Rada Speaker Yatsenyuk enjoyed similar levels of popularity.

¶13. (SBU) Echoing what Lviv Governor Kmit had previously told the Ambassador (Ref B), I-F Governor Palichuk stated emphatically that the March 15 victory of nationalist Svoboda party in the Ternopil oblast elections "by no means shows the real picture" of regional political dynamics. Palichuk recalled that Yatsenyuk and Tymoshenko-affiliated parties did not participate in the Ternopil polling and that BYuT representatives had tried unsuccessfully to cancel the snap elections. Palichuk noted that "people will support something new and with good quality" but have no interest in right-wing slogans of Svoboda.

¶14. (SBU) Several young Chernivtsi politicians pointed out their personal and generational ties to Yatsenyuk, whose rhetoric and fresh face were compared to President Obama. The oblast head of Yatsenyuk's NGO Front of Changes, Oleksiy Kaspruk, said that an eponymous party soon would be formed in parallel with the NGO, and that Yatsenyuk had told him the party and NGO would co-exist with separate political and social goals. Oblast council Party of Regions representative Oleg Ungurian emphasized his longstanding friendship with Yatsenyuk, but stated that each was "working in opposite

directions." Ungurian commented that Yatsenyuk was "excellent, clearly a stand out" as a student at the Chernivtsi university, but that Yatsenyuk was making the same mistakes as Yushchenko, Tymoshenko, and Yanukovich by forming a personality-driven party supported by business tycoons. United Center oblast council representative Mykhailo Senychak said that he lived 30 meters from Yatsenyuk's parents and went to school with Yatsenyuk's family members, but that he would "wish Yatsenyuk success in five years" when he would be more seasoned.

Comment

¶15. (SBU) The entrepreneurial dynamism and pro-European sentiment is palpable in western Ukraine, with construction visible in the cities and countryside, coffee houses full of students, and European Union flags proudly displayed and dreams of NATO accession unabashedly uttered. Unlike other parts of Ukraine, the biggest topic of conversation was not the economic crisis, but politics, and whether Yatsenyuk had what it takes to win the presidency. Among those who know him best, true believers outnumber the doubters, but perhaps only just.
TAYLOR